



## **Federal Emergency Management Agency**

**A Bulletin About the National Flood Insurance Reform Act of 1994**

*May 1995*

### **FEMA Takes Action to Implement National Flood Insurance Reform Act**

The implementation of the National Flood Insurance Reform Act of 1994 requires a great deal of coordination and support within the Federal Emergency Management Agency (FEMA) and between FEMA and many outside organizations. To guide and oversee this effort, FEMA established the National Flood Insurance Reform Act Task Force.

The task force, co-chaired by Gary Oran of the Federal Insurance Administration (FIA) and by Mike Robinson of the Mitigation Directorate, consists of FEMA staff from the Mitigation Directorate, the Federal Insurance Administration, the Response and Recovery Directorate, the Office of Congressional Affairs, and the Office of General Counsel.

Four specific workgroups have also been established within the task force to oversee the implementation of major components that require even greater coordination internally and externally. These workgroups are the Mitigation Assistance Program Workgroup (Section 553), the Mitigation Insurance Workgroup (Section 555), the Agricultural Structures Workgroup (Section 580), and the Outreach Workgroup.

FEMA's National Flood Insurance Reform Act Task Force will be in place until all the provisions of the Act have been implemented.

## **The Whole Thing: The National Flood Insurance Reform Act of 1994**

An important milestone for the National Flood Insurance Program was made when President Clinton signed into law the Community Development and Regulatory Improvement Act of 1994 on Sept. 23, 1994. Title V, the National Flood Insurance Reform Act of 1994, marks the first major change in the program in more than 20 years.

The Act affects every part of the National Flood Insurance Program (NFIP) from insurance to mapping to floodplain management.

The stated purpose of the Act is to improve the financial condition of the NFIP and reduce the Federal expenditures for Federal disaster assistance to flood damaged properties. This will be accomplished through:

***Increased lender compliance**, which will help increase the number of flood insurance policies that are placed and maintained, therefore protecting more people throughout the country and reducing the need for Federal disaster assistance.*

***Mitigation assistance grants**, which will provide assistance for states and communities to protect homes and businesses before a flood damages or destroys them, rather than after a flood has already caused damage.*

***Mitigation insurance**, which will give people the additional financial resources to rebuild their repetitively flooded or substantially damaged homes and businesses to local floodplain management ordinances, therefore reducing the cost and amount of future flood damage.*

The National Flood Insurance Reform Act of 1994 provides lenders with tools to enforce mandatory requirements for flood insurance coverage created under the Flood Disaster Protection Act of 1973. Subtitle B contains most of the provisions that directly affect the lending and regulatory industries.

The Community Rating System (CRS), in place since 1990, was codified under Subtitle C. CRS is a voluntary incentive program that provides flood insurance premium reductions to communities that undertake activities beyond what is required by the NFIP.

Mitigating flood risks through grants and insurance coverage is the focus of Subtitle D.

Two task forces, one dealing with flood insurance and the other focusing on natural and beneficial functions of floodplains, are created under Subtitle E.

Subtitle F contains 14 miscellaneous provisions that deal with insurance, mapping, erosion hazards, and disaster assistance.

The new law reflects the concern of the Congress and the Administration that greater emphasis needs to be placed on the NFIP. The law provides tools to increase the effectiveness of the NFIP in achieving its goals of reducing the risk of flood damage to properties and reducing Federal expenditures for uninsured properties at risk that are damaged by a flood. A list of the provisions within each subtitle is listed on the next page.

Dear Reader,

For more than 25 years, the National Flood Insurance Program (NFIP) has been making Federal flood insurance available in communities that adopt and enforce floodplain management ordinances to reduce future flood losses. Over these years, the cost and damage of flood-related disasters has been reduced through the effective implementation of floodplain management activities and the purchase of flood insurance.

On Sept. 23, 1994, President Clinton signed into law the National Flood Insurance Reform Act of 1994. This law has strengthened the NFIP to further reduce the costly and devastating impacts of flooding. The increased focus on lender compliance, creation of mitigation insurance, and development of a mitigation assistance program are only a few of the provisions that will help reduce the costs of flood disasters and help communities manage their floodplains.

Our goal is to implement the Act effectively and consistently. One step in achieving that goal is to communicate the status of the Act as we take steps necessary to implement it. To do this, we have developed this bulletin for you and the many groups and individuals affected by the Act.

We hope that you find the information we have presented in this bulletin helpful. We are dedicated to continuing to meet the goals set forth by Congress in 1968 when it created the National Flood Insurance Program, and to making the program even more successful by implementing the National Flood Insurance Reform Act of 1994.

Sincerely,

**Elaine A. McReynolds**  
*Administrator*  
*Federal Insurance*  
*Administration,*  
*Federal Emergency*  
*Management Agency*

**Richard T. Moore**  
*Associate Director*  
*for Mitigation,*  
*Federal Emergency*  
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## **Note to Readers**

**This bulletin is designed to keep you informed of the Federal Emergency Management Agency's progress in implementing the National Flood Insurance Reform Act of 1994. If you have any questions about the Act or if you have comments or suggestions, please send them to *Bill Lesser* in the Mitigation Directorate or *Amie Coxon Ware* in the Federal Insurance Administration at:**

**Federal Emergency Management Agency  
500 "C" Street, SW  
Washington, D.C. 20472**

**You may also fax your questions to us at (202) 646-3445.**

# **Provisions of the National Flood Insurance Reform Act of 1994**

## Subtitle B, Compliance and Increase Participation

- Section 521. Non-waiver of flood purchase requirement for recipients of Federal disaster assistance
- Section 522. Expanded flood insurance purchase requirements
- Section 523. Escrow of flood insurance payments
- Section 524. Placement of flood insurance by lenders
- Section 525. Penalties for failure to require flood insurance or notify
- Section 526. Fees for determining applicability of flood insurance purchase requirements
- Section 527. Notice requirements
- Section 528. Standard hazard determination forms
- Section 529. Examinations regarding compliance
- Section 530. Financial Institutions Examination Council

## Subtitle C, Ratings and Incentives for Community Floodplain Management Programs

- Section 541. Community rating system and incentives for community floodplain management
- Section 542. Funding

## Subtitle D, Mitigation of Flood Risks

- Section 551. Repeal of flooded property purchase and loan program
- Section 552. Termination of erosion-threatened structures program
- Section 553. Mitigation assistance program
- Section 554. Establishment of National Flood Mitigation Fund
- Section 555. Additional coverage for compliance with land use and control measures

## Subtitle E, Task Forces

- Section 561. Flood Insurance Interagency Task Force
- Section 562. Task Force on Natural and Beneficial Functions of the Floodplain

## Subtitle F, Miscellaneous Provisions

- Section 571. Extension of flood insurance program
- Section 572. Limitation on premium increases
- Section 573. Maximum flood insurance coverage amounts
- Section 574. Flood insurance program arrangements with private insurance entities
- Section 575. Updating of flood insurance rate maps
- Section 576. Technical Mapping Advisory Council
- Section 577. Evaluation of erosion hazards
- Section 578. Study of economic effects of charging actuarially based premium rates for Pre-FIRM structures
- Section 580. Agricultural structures
- Section 581. Implementation review by Director
- Section 582. Prohibited flood disaster assistance

## In Brief\_

*"In Brief..." is a summary of the major activities and meetings that have taken place.*

### Completed Actions

The increased flood insurance coverage limits (Section 573) were effective Mar. 1, 1995

The 30-day waiting period (Section 579) before flood insurance policies go into effect was also in place Mar. 1, 1995.

The proposed rule for the Standard Hazard Determination Form (Section 528) was published in the *Federal Register* on April 7, 1995.

### Upcoming Actions

FEMA anticipates issuing an interim final rule in the *Federal Register* in July 1995 for the Mitigation Assistance Program (Section 555) and expects to issue planning grants in the fourth quarter of Fiscal Year 1995.

The final rule for the Standard Hazard Determination Form is scheduled to be printed in the *Federal Register* on Jun. 19, 1995.

### Briefings and Meetings Held

A group of 30 participants from FEMA Headquarters and Regions, as well as State and interest group representatives, met in Washington, D.C. from Dec. 5-9, 1994 to develop recommendations for regulations and other administrative strategies related to the Mitigation Assistance Program (Section 553).

FIA met with all regulators affected by the Act on Jan. 26 and 27, 1995 to discuss portions of the law that affect the increased focus on lender compliance with the mandatory purchase of flood insurance requirement.

FEMA held a briefing on the status of the Act on Feb. 24, 1995 at the Hall of States for Federal agencies, organizations, and other interested constituents of the NFIP who have closely followed the legislation.

On Mar. 30, 1995, the FIA hosted the first Flood Insurance Interagency Task Force (Section 561) meeting. The task force is required to conduct a study of Federal agencies and the secondary market to review lender compliance regulations and procedures, submit recommendations, and report to Congress.

On Apr. 19, 1995, FEMA met with House and Senate staff, members of the Congressional Research Service, and other interested Congressional staff, to brief them about the status of implementing the National Flood Insurance Reform Act of 1994.

#### Upcoming Meetings and Briefings

The second meeting of the Flood Insurance Interagency Task Force (Section 561) is scheduled for June 16.



## **Want Your Own Copy?**

**To get a copy of the National Flood Insurance Reform Act of 1994, Public Law 103-325, write to:**

**United States House of Representatives  
Document Room  
Washington, D.C. 20515**

**You may also call (202) 225-3456 or fax (202) 226-4362.**

## Details

*This section is an update of actions taken to implement the provisions of the Act. Follow ups will only include only those provisions that have been acted upon since the prior bulletin.*

### SUBTITLE B

Subtitle B focuses on lenders and lender compliance. FIA hosted a meeting on January 26 and 27 with Federal regulators to coordinate the implementation and ensure uniform understanding of the lender-related provisions of the Act.

### Expanded Flood Insurance Purchase Requirement (Section 522)

#### **SUMMARY**

Federal entities for banking regulation and Federal agencies acting as lenders are to require flood insurance when making, increasing, extending, or renewing a loan, and maintain the coverage for the term of the loan as a condition for applicable loans. The Act also requires Government Sponsored Enterprises (GSEs) that purchase loans in the secondary mortgage market to implement procedures to ensure that applicable loans are covered by flood insurance and that the coverage is maintained for the term of the loan.

#### **ACTIONS**

FIA met individually with 10 major Federal regulatory agencies and GSEs for their input about lender actions to comply with the mandatory purchase requirements. These meetings were completed in January 1995.

FEMA will submit a report of lapsed flood insurance policies with the mortgagees listed to the Federal regulatory agencies and GSEs.

FIA is meeting with all Federal mortgage purchasing organizations.

The Federal Financial Institutions Examination Council (FFIEC) has established a subcommittee to work solely on flood insurance lender compliance issues. They are in the process of drafting regulations.

The regulators, through the FFIEC, are targeting September 1995 for their regulations about the Act.

### Escrow of Flood Insurance Payments (Section 523)

#### **SUMMARY**

Effective Sept. 23, 1995, Federally-regulated lenders, their servicers, and Federal agency lenders are required to escrow for flood insurance if escrows for taxes, insurance, and/or other reasons are already required.

#### **ACTIONS**

The requirement to escrow if lenders are escrowing for other purposes, will be effective Sept. 23, 1995, though lenders may start escrowing immediately.

Starting in July or August of 1995, FEMA will include a notice to lenders with the flood insurance policy renewal notice to alert them to the escrow requirement.

The FIA met with regulators, some of whom sit on the FFIEC, and GSEs.

FIA addressed members of the Mortgage Bankers Association of America about the Act at their annual convention.

FIA discussed with regulators ways that NFIP can assist them and lenders in reducing policy lapses.

#### Placement of Flood Insurance by Lenders

(Section 524)

##### **SUMMARY**

Lenders are required to notify borrowers if their property is in a Special Flood Hazard Area and, therefore requires flood insurance. If the borrower has not purchased flood insurance after 45 days of the notification, the lender must purchase flood insurance on behalf of the borrower. Additionally, FEMA is required to establish procedures whereby FEMA reviews a lender's determination of whether a building or mobile home is located in a Special Flood Hazard Area. The borrower and lender must jointly request FEMA's review of the determination. The request must be supported by technical information related to the real estate or mobile home.

##### **ACTIONS**

FEMA is drafting a proposed rule regarding FEMA's review and determination to be published in the *Federal Register* in May 1995.

Existing Letter of Map Amendment/Letter of Map Revision procedures will be followed to address questions about whether structures are located within Special Flood Hazard Areas until the final rule is published.

FEMA is targeting September 1995 for the final rule.

#### Penalties for Failure to Require Flood Insurance or Notify (Section 525)

##### **SUMMARY**

Civil penalties may be imposed for Federally-regulated lenders and GSEs for housing that have a pattern of non-compliance with flood insurance requirements, notification, escrow, and placement and maintenance of flood insurance. The penalties are \$350 for each offense, up to a maximum of \$100,000 in any given year. The penalties will be deposited in the National Flood Mitigation Fund established by the Act and will be used to support

the Mitigation Assistance Program established under Section 553.

### **ACTIONS**

FEMA is coordinating with regulators about the enforcement of the penalties, the procedures of depositing monies collected into the National Flood Mitigation Fund, and the reporting requirements.

FEMA plans to meet with the U.S. Treasury to discuss procedures for depositing the appropriate monies into the National Flood Mitigation Fund.

### Notice Requirements (Section 527)

#### **SUMMARY**

Federally-regulated lenders and Federal agency lenders are required to notify, in writing, the purchaser or lessor that the property is in a Special Flood Hazard Area in advance of signing of the purchase agreement or lease. Lenders must inform FEMA or its designee of the servicer of a loan made in a Special Flood Hazard Area and of any change in servicer not more than 60 days after the effective date of the change. FEMA is to notify the policyholder and the servicer of the loan 45 days before the renewal date of the policy.

### **ACTIONS**

FIA is coordinating with regulators to determine the procedure for banking institutions to use when reporting to the Director of FEMA or its designee of a change in servicer.

In the interim, FIA is asking lenders to provide the information directly to the insurance agent or insurer.

FIA issued a directive to Write Your Own companies and the NFIP Servicing Contractor to issue the notification to the policyholder and the servicer of the loan.

### Standard Hazard Determination Form (Section 528)

#### **SUMMARY**

FEMA is to coordinate with the Federal regulators to develop a Standard Hazard Determination Form to determine if a building or mobile home is located in an identified Special Flood Hazard Area and if flood insurance is available. The form will be used to identify buildings located in a Special Flood Hazard Area and will assist Federal entities for lending regulation in ensuring compliance with the mandatory purchase requirements.

### **ACTIONS**

A draft of the form was distributed for comment to more than 400 individuals representing bank regulators, lenders, insurance agents, flood zone determination companies, attorneys, trade associations, professional surveyors and engineers, floodplain managers, and other interested parties.

Comments were incorporated into a revised version of the form and was presented to the Federal regulators.

The proposed rule was published in the *Federal Register* on Apr.7, 1995 and is on schedule for the mandated effective date of Jun. 19, 1995.

Lenders are required to begin using the form 180 days after it has been established as a final rule in the *Federal Register*, though they may choose to start using it as soon as it has been published as a final rule.

#### Examinations Regarding Compliance by Lenders (Section 529)

##### **SUMMARY**

Federal banking agencies and the National Credit Union Administration must assess lender compliance with flood insurance requirements during scheduled inspections and to report their findings to Congress one year after the date of enactment and biennially thereafter for the next four years. It also amends the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 to require the Director of the Office of Federal Housing Enterprise Oversight of the Department of Housing and Urban Development to determine whether the member enterprises have established adequate procedures to comply with the requirements of the Act based upon these reports to Congress.

##### **ACTIONS**

FIA met in December 1994 with regulators and the National Credit Union Administration to establish ways to measure compliance as required by law.

Agreement was reached at January 26 and 27 workshop that FEMA will determine whether it is required to report to Congress about compliance with the Act.

If required, FIA will make formal written requests of the regulatory agencies for needed data and the agencies will comply with FIA's requests.

FEMA plans to conduct training sessions for regulators and their examiners.

#### SUBTITLE C

#### Community Rating System (Section 541)

##### **SUMMARY**

The Act codifies the Community Rating System (CRS), establishes objectives for CRS, and directs that credits may be given to communities that implement measures to protect natural and beneficial floodplain functions and manage the erosion hazard. FEMA must report to Congress within two years.

The CRS is an incentive program whereby communities that exceed the minimum requirements of the NFIP secure reductions in the flood insurance premiums for their

residents. As of Oct. 1, 1994, 823 communities were participating in CRS. The policies in the CRS communities represent 56 percent of all NFIP flood insurance policies currently in place.

## **ACTIONS**

FEMA revised the 1994 creditable activities to include actions related to protecting natural and beneficial functions and coastal erosion hazards. The 1995 CRS coordinators manual will incorporate these new goals into the CRS.

Efforts to evaluate the CRS are underway for the biennial report required by the Act.

## **SUBTITLE D**

### **Repeal of Flooded Property Purchase and Loan Program (Section 551)**

## **SUMMARY**

Section 1362 Property Purchase Program (the acquisition of substantially or repetitively flood-damaged structures) of the National Flood Insurance Act of 1968 is repealed.

The Mitigation Assistance Program, Section 552, replaces Section 1362 Flood Damaged Property Acquisition Program.

## **ACTIONS**

FEMA is reviewing all pending applications for Section 1362 property acquisition.

Section 1362 is scheduled to be closed out Aug. 30, 1995.

### **Termination of Erosion-Threatened Structures Program (Section 552)**

## **SUMMARY**

The Upton-Jones program, which provided relocation or demolition benefits under the Standard Flood Insurance Policy for properties in imminent danger of collapse from erosion, will be terminated with a 1-year transition phase from Sept. 23, 1994 to Sept. 23, 1995.

The Mitigation Assistance Program, Section 552, replaces the Upton-Jones acquisition/demolition program for buildings threatened by erosion.

## **ACTIONS**

FEMA will process claims under Upton-Jones if both the "notice of loss" and condemnation or certification are issued on or before Sept. 23, 1995. The insured structure must also be in the zone of imminent collapse, and an NFIP policy has to be in place for two consecutive years prior to the date of condemnation or certification. Flood insurance will not be available for properties where an Upton-Jones claim has been paid and where placement or construction of a building does not meet the 30- or 60-year setback.

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## Mitigation Assistance Program (Section 553)

### **SUMMARY**

FEMA is to provide grants to states and communities based on a 75 percent/25 percent cost share for mitigation plans and projects. Eligible project activities include: acquisition and relocation; elevation; floodproofing; demolition; small structural works that do not duplicate other agencies' programs (e.g. no major levees); beach nourishment; and technical assistance. States and communities must have an approved flood mitigation plan before they can be eligible to receive project grants.

### **ACTIONS**

A week-long workshop was held in December 1994 to discuss the flood mitigation program and to make recommendations for regulations and program guidance. Attendees included representatives of State emergency managers and floodplain managers, FEMA Regional staff, as well as representatives from other interested organizations.

The Mitigation Directorate is currently developing regulations to implement the Mitigation Assistance Program.

FEMA plans to issue an interim final rule in July 1995 and expects to issue planning grants in the fourth quarter of Fiscal Year 1995 .

## Additional Coverage for Compliance With Land Use and Control Measures (Section 555)

### **SUMMARY**

This section provides insurance coverage to cover the cost to repair and reconstruct substantially damaged or repetitively flooded structures that are covered with flood insurance to comply with floodplain management regulations. This coverage is referred to as mitigation insurance.

### **ACTIONS**

FEMA has met with the Association of State Floodplain Managers.

FEMA is targeting publishing a proposed rule in January 1996.

FEMA plans to have mitigation insurance effective Oct. 1, 1996.

## SUBTITLE E

### Flood Insurance Interagency Task Force

#### (Section 561)

### **SUMMARY**

A 10-member task force is established to recommend standardized enforcement procedures and to study how Federal agencies and GSEs can assist compliance with the mandatory flood insurance purchase requirements. The task force's findings will be reported to Congress.

## **ACTIONS**

The first task force meeting was held Mar. 30, 1995. A second meeting is scheduled for Jun. 16, 1995.

The Federal Insurance Administrator was elected to chair the Flood Insurance Interagency Task Force.

### Task Force on Natural and Beneficial Functions of the Floodplain (Section 562)

#### **SUMMARY**

An interagency task force consisting of the Department of Commerce for Oceans and Atmosphere, U.S. Fish and Wildlife Service, the Environmental Protection Agency, U.S. Army Corps of Engineers, and the Federal Emergency Management Agency, is established to study natural and beneficial floodplain functions that reduce flood related losses and to make recommendations.

## **ACTIONS**

FEMA plans to convene the task force as a follow up to the Administration's action plan for implementing the recommendations of *Sharing the Challenge: Floodplain Management into the 21st Century*, the report that resulted from a study of the 1993 Midwest Flood.

### SUBTITLE F

#### Extension of the NFIP (Section 571)

#### **SUMMARY**

The National Flood Insurance Program is extended through Sept. 30, 1996.

## **ACTIONS**

No action required.

### Maximum Flood Insurance Coverage Amounts (Section 573)

#### **SUMMARY**

The maximum flood insurance coverage amounts available are increased.

#### **Increased Flood Insurance Coverage Limits**

<b>Building Type</b>	<b>Building Coverage</b>	<b>Contents Coverage</b>
<b>Single Family</b>	<b>\$250,000</b>	<b>\$100,000</b>
<b>2-4 Family</b>	<b>\$250,000</b>	<b>\$100,000</b>
<b>Other</b>	<b>\$250,000</b>	<b>\$100,000</b>
<b>Residential</b>		
<b>Residential</b>	<b>\$250,000</b>	<b>\$100,000</b>



<b>Condo</b>	<b>x # of units</b>	
<b>Commercial</b>	<b>\$500,000</b>	<b>\$500,000</b>
<b>(including</b>		
<b>small business)</b>		

## **ACTIONS**

The Final Rule was published in the *Federal Register* on Jan. 30, 1995, making the increased coverage limits effective Mar. 1, 1995.

### Updating Flood Insurance Maps (Section 575)

#### **SUMMARY**

FEMA is required to review and assess the need to update and revise the Flood Insurance Rate Maps every five years. This section also requires that FEMA provide regular distribution of changes to the maps that are affected by letter, including the publication of a semi-annual compendium of all map revisions.

## **ACTIONS**

A FEMA work group will guide the implementation and oversee the administration of the 5-year map review process.

Because the review process is expected to identify additional mapping needs, increased Fiscal Year 1996 funds have been requested.

FEMA established a subscription service to provide for a semi-monthly distribution of all letter changes to Flood Insurance Rate Maps.

The first compendium of map changes, including those made by republication or by letter, for the period of Oct. 1, 1994, through Dec. 31, 1994, was published in the *Federal Register* on Feb. 8, 1995.

FEMA will publish future compendia in the *Federal Register* at 6-month intervals. The next compendia, covering the period from Jan. 1, 1995 to Jun. 30, 1995 will be published in July 1995.

### Technical Mapping Advisory Council (Section 576)

#### **SUMMARY**

A Technical Mapping Advisory Council is established to recommend improvements to Flood Insurance Rate Maps.

## **ACTIONS**

Invitation letters have been sent to the 10 specific agencies and groups designated by the legislation, requesting nominations for members of the council. Nominations have been received from most parties.

The first meeting of the council is anticipated to be held in the Summer of 1995.

#### Evaluation of Erosion Hazards (Section 577)

##### **SUMMARY**

Requires that FEMA conduct an economic impact analysis of erosion hazard areas and its impact on the National Flood Insurance Program, its policyholders, and communities prone to erosion. To conduct this study, the Act states that FEMA "may map a statistically valid and representative number of communities with erosion hazard areas throughout the United States, including coastal, Great Lakes, and, if technologically feasible, riverine areas."

##### **ACTIONS**

Letters were sent Feb. 28, 1995 to coastal zone management (CZM) program managers for the 30 coastal and Great Lakes States to request assistance from the States in compiling a national list of communities and counties that have erosion hazard areas. As of Apr. 24, 1995, 19 states have responded.

Statements of Work are being drafted for cooperative agreements between FEMA and a number of State agencies to conduct 60-year erosion hazard mapping in accordance with the Act. FEMA plans to initiate studies with 10 state agencies in Fiscal Year 1995 and 10 more in Fiscal Year 1996.

A sole source contract will be awarded in early May for a study contractor to conduct a 5-month pilot economic impact analysis of mapping erosion hazard areas.

A study to determine the technical feasibility of mapping riverine erosion hazards is being conducted. The study, another requirement of Section 577, is scheduled to be completed in June 1995.

FEMA plans to initiate a study in Fiscal Year 1996 that will require an inventory of structures contained within the 60-year erosion hazard areas mapped by the states. FEMA also plans to initiate the "economic impact analysis" phase of the study in Fiscal Year 1996, continuing through Fiscal Year 1997. This study will assimilate the mapping and structure inventory data collected in the earlier phases of the study and use it to determine the economic impact of mapping erosion hazard areas.

#### Study of Economic Effects of Charging Actuarial Rates for Pre-FIRM Structures (Section 578)

##### **SUMMARY**

FEMA is required to study the economic impacts of charging actuarial rates to pre-FIRM structures. The study is to include: the number and type of properties affected; the effects that the increases would have on land values, the economy, and the homeowners; and the

amount of premium to be charged. A report of these findings is due to Congress no later than 12 months from the date of enactment.

Letters were sent Feb. 28, 1995 to coastal zone management (CZM) program managers for the 30 coastal and Great Lakes States to request assistance from the States in compiling a national list of communities and counties that have erosion hazard areas. As of Apr. 24, 1995, 19 states have responded.

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##### **ACTIONS**

FIA is in the process of developing a Statement of Work to contract for the study.

#### Effective Dates of Policies (Section 579)

##### **SUMMARY**

The waiting period from the time all obligations have been met (premium payment and completed application) for flood insurance coverage is increased to 30 days.

There are two exceptions.

1. The ***initial*** purchase of flood insurance when the purchase is in connection with the making, increasing, extending, or renewing of a loan. In this case, there is no waiting period.
2. The ***initial*** purchase of flood insurance if that purchase occurs during the 13-month period following the revision or update of a flood insurance rate map. In this case, the policy would go into effect at 12:01 a.m. the day after the application is made and payment is received.

Another provision of the law calls for a study of the effect of the increased waiting period.

## **ACTIONS**

The Final Rule was published in the *Federal Register* on Jan. 30, 1995 making the increased waiting period effective Mar. 1, 1995.

FEMA submitted a report to Congress on Mar. 28, 1995 about the projected affect of the increased waiting period.

FEMA will follow-up with another report to Congress with information based on flood events once the new waiting period has been in effect for 1 year.

## Agricultural Structures (Section 580)

### **SUMMARY**

This provision gives states or communities the option of either exempting agricultural structures that have been damaged by flooding from floodplain management regulations or requiring that these structures be wet floodproofed, dry floodproofed, or elevated.

Under the Act, the Director must either deny flood insurance to agricultural structures that are not wet floodproofed or otherwise protected, or charge actuarial rates.

This section also prohibits disaster relief for agricultural structures that have been damaged in communities that exempted all or some of these structures from floodplain management regulations. This section does not apply to new or substantially improved agricultural structures. It only applies to structures damaged after the date of enactment of this Act.

## **ACTIONS**

The Mitigation Directorate has initiated a study to determine whether agricultural structures can be wet floodproofed (permanent or contingent measures applied to a structure that prevent or provide resistance to damage that allows flood waters to enter the structure). Once the study is completed, the Mitigation Directorate will determine whether rulemaking

is necessary to incorporate wet floodproofing criteria in the NFIP Floodplain Management Regulations, and FIA will determine the appropriate flood insurance rate structure.

#### Prohibited Flood Disaster Assistance (Section 582)

##### **SUMMARY**

Individuals in Special Flood Hazard Areas who received an Individual and Family Grant for flood disaster losses to real or personal property must purchase and maintain flood insurance coverage. If flood insurance is not purchased and maintained, many forms of disaster assistance may be denied in future floods.

The requirement to maintain flood insurance coverage stays with the structure that received disaster assistance as a result of flood damage. If the structure is sold, the current owner is required to notify the buyer of the house of the need to purchase and maintain flood insurance. If the buyer is not notified, suffers uninsured flood losses, and receives Federal disaster assistance, the seller may be required to repay the government any Federal disaster assistance the buyer received.

##### **ACTIONS**

An interim final rule for the Individual and Family Grant program was published in the *Federal Register* on Feb. 7, 1995. The rule requires that recipients of Federal disaster assistance for buildings in a Special Flood Hazard Area purchase and maintain flood insurance coverage as long as they live in the dwelling.

## Particulars

*This section addresses questions about the National Flood Insurance Reform Act of 1994. If you have questions you would like addressed here, send them to the address on page 2.*

### Subtitle B, Second Mortgages

**Q. *When a bank grants a second mortgage loan, is new coverage for the amount of the new loan required? Must this bank determine that the unpaid balances of both the first and second mortgage are covered by flood insurance or may this bank accept the insurance coverage existing on the first assuming it is in an amount at least equal to the amount of the new second mortgage?***

**A.** In FEMA's view of the Flood Disaster Protection Act of 1973, secondary mortgage lenders should make sure that the appropriate coverage is there to protect them. FIA recommends that the second mortgage lender contact the insurance agent that wrote the original flood policy to find out what the additional premium will be and request an endorsement of the policy. It will increase the coverage and list the second mortgage lender. There can only be one flood insurance policy per building.

### Subtitle D, Mitigation Insurance

**Q. *How much will the mitigation insurance cost?***

**A.** A maximum charge of \$75 will be added to flood insurance premiums. However, the cost may be less than \$10 for some structures. The cost will be based on the risk that the structure has of being damaged by a flood resulting in a claim that would trigger that coverage. For instance, an older buildFlood Insurance Reform Act of 1994. If you have questions you would like addressed here, send them to the address on page 2.

### Subtitle E, Waiting Period

**Q. *If someone purchases a house outright, and therefore has no mortgage loan, will that person have a 30-day waiting period if that person goes to buy a flood insurance policy?***

**A.** Yes. There are only two instances where the 30-day waiting period does not apply. The first is when flood insurance is being purchased in connection with the making, increasing, renewing or extending a loan. The second is during the 13-month period following a revision or update of a Flood Insurance Rate Map.

### Subtitle E, FEMA Disaster Assistance

**Q. *Will there be assistance for recipients of Individual and Family Grants who are flooded and live in a Special Flood Hazard Area to purchase the flood insurance policy to comply with the law?***

**A.** Those who qualify for an Individual and Family Grant may be eligible for additional grant money to pay the initial flood insurance premium. In March 1995, FEMA published a proposed rule in the *Federal Register* regarding a Group Flood Insurance Policy. Under the proposed rule, premium would be paid from the grant money directly to the NFIP.

The policy term would be three years. This policy will help victims of flood disasters who are required to purchase flood insurance.